

## MEMORANDUM

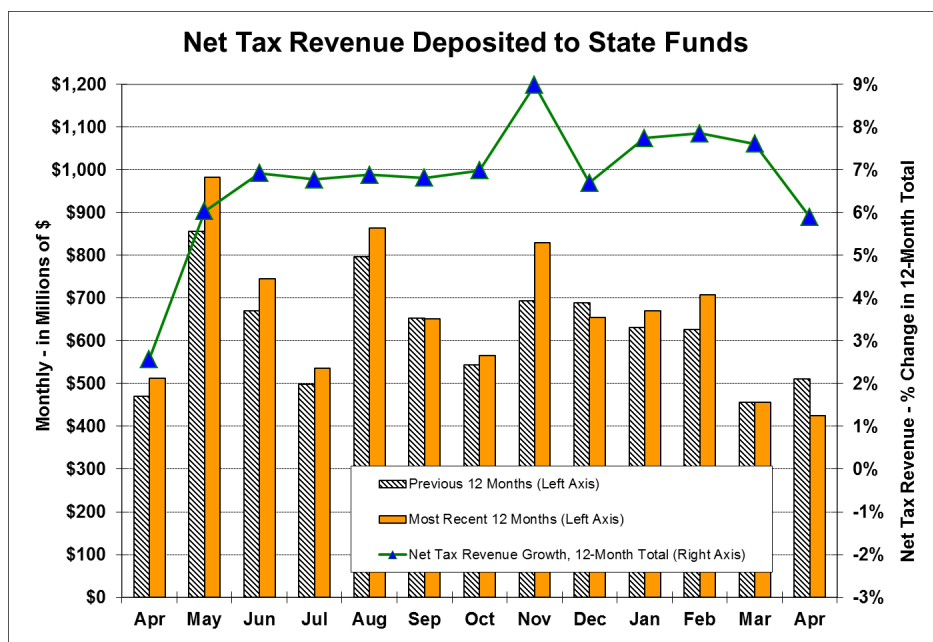
TO: Members of the Iowa Senate and  
Members of the Iowa House of Representatives

FROM: Jeff Robinson

DATE: May 27, 2016

### Twelve-Month Total Net Tax Receipts Through April 30, 2016

The attached spreadsheet presents net tax revenue deposited to State funds for the 12-month period ending April 2016 with comparisons to the previous 12 months. April 2015 to April 2016 one-month comparisons are also presented. The source of the information is the State accounting system, including non-General Fund accounts. All accounting transactions related to taxes remitted to the State were reviewed, along with the refunds issued against those taxes.



### Overview of Current Situation

Tax revenue for the month of April 2016 posted a significant decrease and this was due in large part to lower individual income tax return deposits. The 12-month revenue increase dropped to 5.9% from 7.6% at the end of March. Going forward, the rate of tax revenue growth should slow as the one-year anniversary of the fuel tax increase has now passed.

## Month of April 2016

April net tax receipts totaled \$425.4 million, a decrease of \$86.8 million (-16.9%) compared to April 2015. Individual income tax decreased a significant \$71.0 million, and this was the result of a decrease in deposits of payments made when individual income tax returns were filed for tax year 2015. Some of this decrease is likely a deposit timing issue that will reverse in May. In addition, corporate income tax net deposits declined \$11.7 million for the month. The only significant source of tax revenue gain was the fuel tax, up \$13.6 million for the month of April. The Iowa motor fuel tax was increased \$0.10 per gallon beginning March 1, 2015, and April 2016 will represent the final month of significant year-over-year gains resulting from that rate increase.

## Year-over-Year Comparison — Net Tax Revenue

During the 12-month period ending April 2016, net revenue from all taxes deposited to state funds totaled \$8.084 billion, an increase of \$449.7 million (5.9%), compared to the prior 12 months. Major contributors to the year-over-year dollar and percentage changes include:

- Individual Income Tax (positive \$132.0 million, 4.0%) – Individual income tax has been strongly positive since May 2015. However, the March 4.0% annual growth rate is the lowest over that time frame.
- Corporate Income Tax (negative \$14.1 million, -3.2%)
- Sales/Use Tax (positive \$93.0 million, 3.6%) – Gross tax receipts from the sale of vehicles (deposited to the Road Use Tax Fund) increased \$18.3 million (5.1%) over the last 12 months while sales/use tax deposited to the State General Fund increased \$53.5 million (2.0%). Sales tax deposited to other state funds, mainly the Flood Mitigation Fund, increased \$24.2 million. Over those same 12 months, refunds of General Fund sales/use tax payments, including the payments to local school districts for school infrastructure, increased \$3.0 million. Over the most recent 12 months, transfers to the Flood Mitigation Fund have consumed 32.4% of all state sales/use tax revenue growth.
- Bank Tax (positive \$9.9 million, 28.5%) – After a significant decline that began in March 2014, the annual growth in bank tax net revenue turned positive in April 2015. Over the most recent 12 months, tax deposits have increased \$5.1 million, while tax refunds have decreased \$4.8 million.
- Fuel Tax (positive \$206.8 million, 45.2%) – According to Department of Revenue monthly fuel sales reports, over the most recent 12-month period, Iowa taxable gasoline/ethanol gallons sold decreased 0.1%, and taxable diesel sales decreased 1.8%. The combination of gasoline and diesel taxable fuel gallons decreased 0.6% over the period. Due in large part to the Iowa gas tax increase (effective March 1, 2015), fuel tax net deposits increased 45.2% over the past 12 months.
- Gambling Tax (positive \$3.8 million, 1.3%) – According to Racing and Gaming Commission statistics, 10 Iowa casino/track locations recorded negative annual adjusted gross revenue (AGR) growth for the 12 months ending March 2016. A new casino opened near Jefferson in July 2015. The combined AGR change for the 19 facilities was positive 2.4% over the previous 12 months. Across all facilities, the AGR for the 12 months totaled \$1.441 billion, an amount that is 1.9% below the annual AGR peak (December 2012).
- Real Estate Transfer Tax (positive \$0.3 million, 1.5%)
- Cigarette and Tobacco Tax (positive \$6.9 million, 3.2%)

## Tax Spotlight – Cigarette Tax and Tobacco Tax

Tobacco products are taxed under the authority of [Iowa Code chapter 453A](#)., based on law changes enacted in 2007:

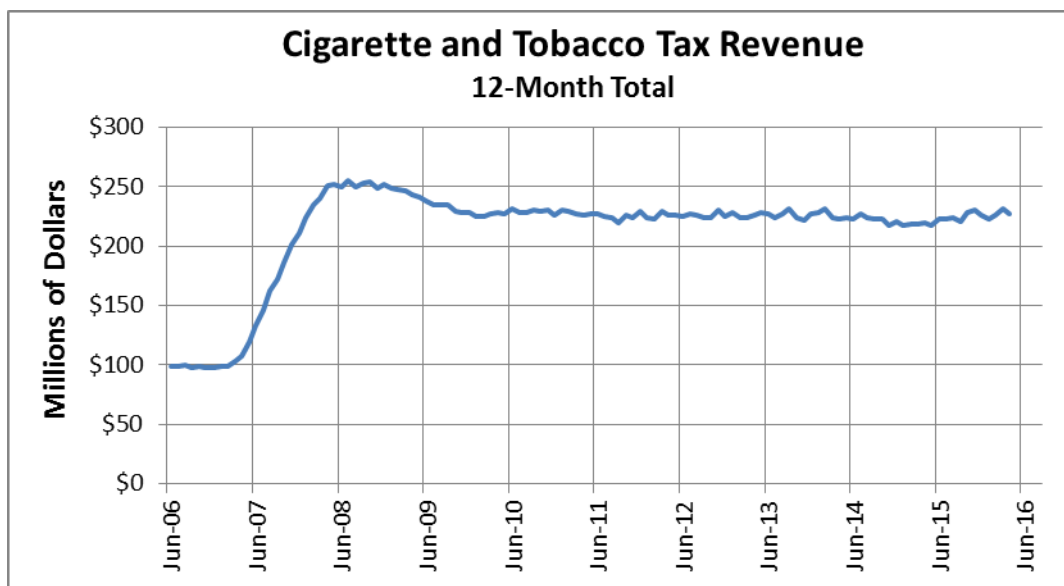
- Cigarettes and little cigars are taxed at \$0.068 per cigarette (\$1.36 per pack of 20).
- Snuff is taxed at \$1.19 per ounce.
- Cigars are taxed at 50.0% of the wholesale price, not to exceed \$0.50 per cigar.
- All other tobacco products are taxed at 50.0% of the wholesale price.
- Effective July 1, 2012, in addition to the tobacco tax of 50.0% of the wholesale price, roll-your-own (RYO) cigarettes are taxed at \$0.0306 per cigarette (\$0.65 per pack of 20).
- Iowa taxes on cigarette and tobacco products do not apply to electronic cigarettes.

The Iowa cigarette tax was first enacted at a rate of \$0.02 per pack of 20 cigarettes (HF 678, Cigarette Tax Act of 1921). The cigarette tax rate was increased periodically, and reached \$0.34 per pack in 1988. In 1989 the tax was lowered to \$0.31 per pack, and then increased in 1991 to \$0.36 per pack. The tax remained at \$0.36 per pack until the 2007 Legislative Session. The current state tax rates went into effect on March 16, 2007.

The tobacco tax was enacted in 1967 at a rate of 10.0% of the wholesale price (HF 702, Division 1, Tax Modification Act of 1967). The tax was increased to 15.0% in 1985, 19.0% in 1988, and 22.0% in 1991. The rate stood at 22.0% of the wholesale price until the 2007 Legislative Session.

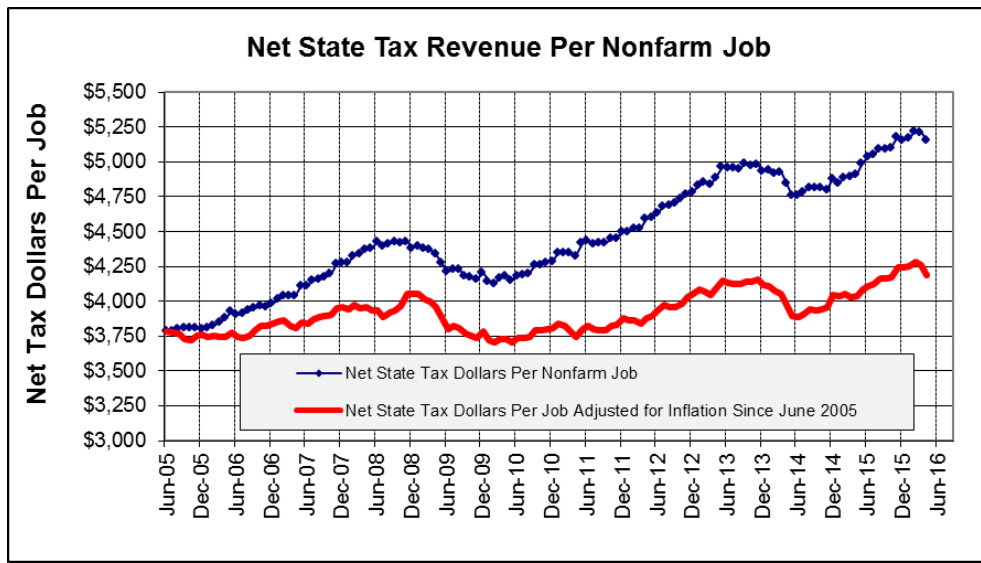
The tax imposed on cigarettes must be paid by the person making the first sale in Iowa. Cigarette stamps affixed to the package indicate the tax has been paid. Cigarette tax returns are to be filed by the holder of a permit by the tenth day of each month for the preceding calendar month. Tobacco (other than cigarettes) tax returns must be filed by the twentieth day of each month for the preceding calendar month. Beginning with FY 2014, all cigarette and tobacco tax revenue is deposited into the Health Care Trust Fund.

The following chart depicts Iowa cigarette and tobacco tax revenue deposited to all funds, on a 12-month moving total basis.



## Tax Revenue and Employment

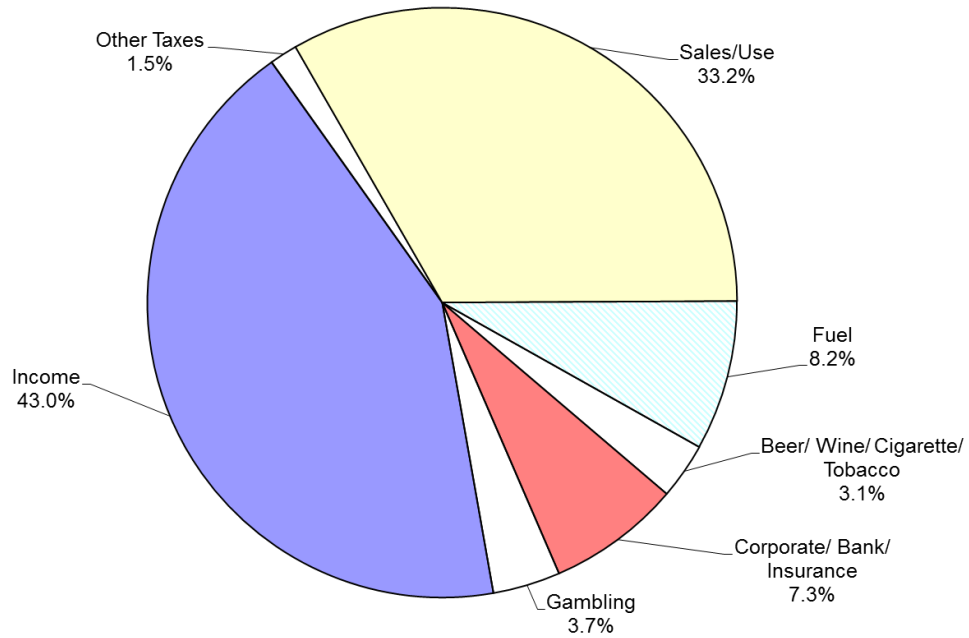
The average reading for Iowa nonfarm employment over the 12 months ending March 2016 is 1,567,100, and net state tax receipts over the same 12 months totaled \$8.171 billion, or \$5,214 per nonfarm job. This is \$1,429 higher than the per-job average for the 12 months ending June 2005. The blue line on the following chart depicts the annual tax revenue collected by the state per job, calculated monthly. The red line subtracts the impact of inflation since June 2005 from the blue line. The red line indicates that inflation-adjusted tax revenue per job has increased \$474 since June 2005, and the remainder of the \$1,429 increase (\$955) represents the impact of inflation.



## Net State Tax Revenue - Twelve Months Ending April 2016

**Net Revenue = \$8.084 Billion**

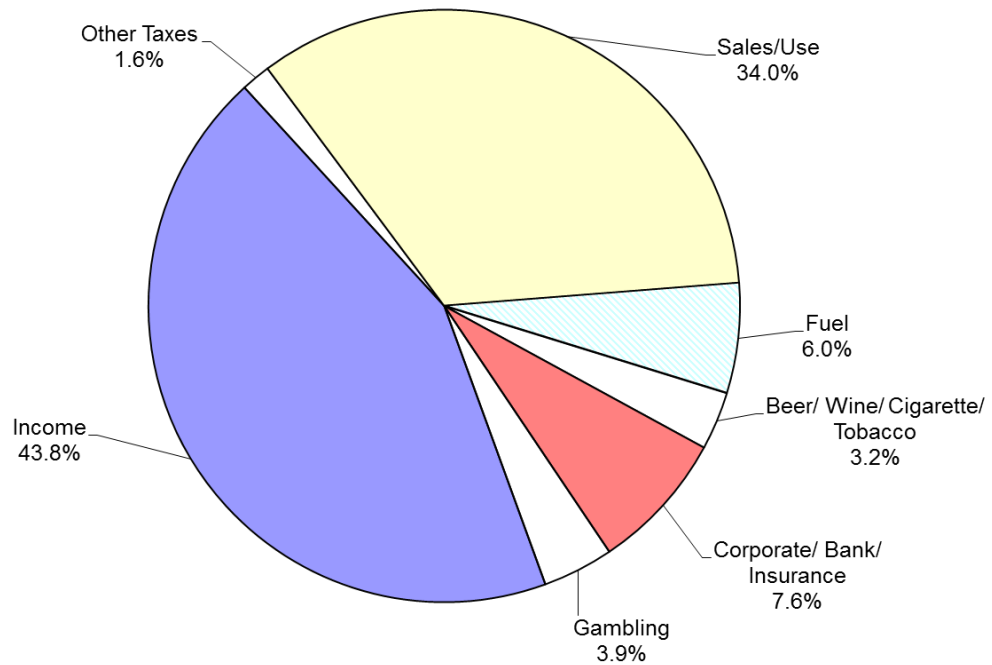
Percentages may not add to 100% due to rounding



## Net State Tax Revenue - Twelve Months Ending April 2015

**Net Revenue = \$7.634 Billion**

Percentages may not add to 100% due to rounding



## Net Tax Revenue Deposited to State Funds - Cash Basis

Dollars in millions - columns and rows may not add due to rounding

<b>Net Tax by Tax Type</b>	<b>Previous 12-Month Period Total</b>	<b>Most Recent 12-Month Period Total</b>	<b>12-Month \$ Change</b>	<b>12-Month % Change</b>	<b>Month of April 2015</b>	<b>Month of April 2016</b>	<b>April \$ Change</b>	<b>April % Change</b>
Banking	\$ 34.7	\$ 44.6	\$ 9.9	28.5%	\$ 7.0	\$ 6.8	\$ - 0.2	-2.9%
Beer & Wine	22.3	22.3	0.0	0.0%	1.6	1.8	0.2	12.5%
Cigarette & Tobacco	220.2	227.1	6.9	3.1%	18.3	14.1	- 4.2	-23.0%
Corporate Income	441.4	427.3	- 14.1	-3.2%	59.4	47.7	- 11.7	-19.7%
Fuel	457.9	664.7	206.8	45.2%	36.1	49.7	13.6	37.7%
Gambling	295.5	299.3	3.8	1.3%	30.3	25.0	- 5.3	-17.5%
Individual Income	3,340.4	3,472.4	132.0	4.0%	198.7	127.7	- 71.0	-35.7%
Inheritance	87.3	85.8	- 1.5	-1.7%	5.4	3.6	- 1.8	-33.3%
Insurance	107.1	117.4	10.3	9.6%	0.1	- 0.1	- 0.2	-200.0%
Other Taxes	15.2	17.5	2.3	15.1%	- 0.8	- 0.7	0.1	--
Real Estate Transfer	20.2	20.5	0.3	1.5%	1.6	1.7	0.1	6.2%
Sales/Use	2,592.3	2,685.3	93.0	3.6%	154.5	148.1	- 6.4	-4.1%
<b>Total Net Taxes</b>	<b>\$ 7,634.5</b>	<b>\$ 8,084.2</b>	<b>\$ 449.7</b>	<b>5.9%</b>	<b>\$ 512.2</b>	<b>\$ 425.4</b>	<b>\$ - 86.8</b>	<b>-16.9%</b>
<b>Gross Tax &amp; Refunds</b>								
Gross Tax	\$ 9,090.0	\$ 9,600.2	\$ 510.2	5.6%	\$ 776.9	\$ 692.8	\$ - 84.1	-10.8%
Tax Refunds	\$ - 1,455.5	\$ - 1,516.0	\$ - 60.5	4.2%	\$ - 264.8	\$ - 267.4	\$ - 2.6	1.0%
<b>Net Tax Receipts by Fund</b>								
State General Fund (GF)	\$ 6,259.2	\$ 6,446.7	\$ 187.5	3.0%	\$ 394.4	\$ 302.5	\$ - 91.9	-23.3%
Road Use Tax Fund	\$ 817.4	\$ 1,040.2	\$ 222.8	27.3%	\$ 67.6	\$ 82.8	\$ 15.2	22.5%
Non-GF Gambling	\$ 293.8	\$ 297.6	\$ 3.8	1.3%	\$ 30.2	\$ 24.9	\$ - 5.3	-17.5%
Other State Funds	\$ 264.0	\$ 299.7	\$ 35.7	13.5%	\$ 19.9	\$ 15.2	\$ - 4.7	-23.6%
<b>Local Option Taxes *</b>	<b>\$ 953.8</b>	<b>\$ 945.3</b>	<b>\$ - 8.5</b>	<b>-0.9%</b>	<b>\$ 91.1</b>	<b>\$ 84.3</b>	<b>\$ - 6.8</b>	<b>-7.5%</b>

\* Sales, income surtax, hotel/motel, and flood mitigation. Distributed to local governments - not included in numbers above.

Numbers are rounded to the nearest \$0.1 million. Percentages are calculated after rounding.

A percentage change displayed as "--" represents instances where the base year net revenue amount was zero or negative so no meaningful percentage change can be calculated.

## **Tax Categories Used in Table**

**Franchise (Bank) Tax:** The franchise tax paid by banks is deposited in the State General Fund. Credit unions are taxed under a different system than banks, but the credit union tax is included in this line also. Of the total deposited, the bank tax provides approximately 98.0% of the revenue and the credit union tax 2.0%.

**Beer & Liquor Tax:** Taxes on beer, liquor, and wine are deposited in the State General Fund, the Liquor Control Fund, and a small amount is deposited in an Iowa Economic Development Authority Fund for wine promotion.

**Cigarette & Tobacco Tax:** Prior to July 1, 2011, all cigarette and tobacco product tax revenue was deposited in the State General Fund. Since FY 2012, the first \$106.0 million of revenue from cigarette and tobacco taxes has been deposited in the Health Care Trust Fund, and the remainder is deposited in the State General Fund. Beginning in FY 2014, all cigarette and tobacco tax revenue is deposited in the Health Care Trust Fund.

**Corporate Income Tax:** All corporate income tax is deposited in the State General Fund.

**Motor Vehicle Fuel Tax:** All motor vehicle fuel tax is deposited in one of two road use funds, with the exception of tax revenue from the sale of aviation and marine fuels.

**Gambling Tax:** Gambling tax is deposited in several state funds. Beginning with FY 2014, the state no longer deposits gambling tax revenue to the State General Fund. Funds receiving deposits of gambling tax revenue over the last 24 months include the Rebuild Iowa Infrastructure Fund, the County Endowment Fund, the Vision Iowa Fund, the Revenue Bond Debt and Subsidy Holdback Funds, and the Iowa Skilled Worker and Job Creation Fund.

**Individual Income Tax:** Most individual income tax revenue is deposited in the State General Fund. A total of \$6.0 million per year (\$5.75 million in FY 2015) is deposited in the Workforce Development Fund. An annual \$2.6 million diversion to the Child Daycare Fund ended in FY 2009. In addition, several economic development programs are financed by individual income tax withholding. In those instances, the employer does not remit the tax withheld from employees and it is never deposited in a state fund. That revenue is not included here.

**Inheritance Tax:** All inheritance tax is deposited in the State General Fund.

**Insurance Premium Tax:** All insurance premium tax is deposited in the State General Fund.

**Other Taxes:** Other taxes include the brucellosis eradication property tax (deposited in a Department of Agriculture and Land Stewardship fund), drug stamp tax (State General Fund), utility replacement property tax (State General Fund), and car rental tax (Road Use Tax Fund). Other taxes also include a suspense account used to hold tax deposits prior to determining the correct tax type for the money and tax revenue transferred by the Department of Revenue to separate accounts to fund tax collection activities (tax gap and department operations).

**Real Estate Transfer Tax:** Real estate transfer tax is collected by counties. Counties retain 17.25% and remit the remainder to the state. The distribution of the state portion of real estate transfer tax revenue is currently changing each fiscal year, with the State General Fund portion reduced to 65.0% for FY 2015. The portion not deposited to the State General Fund is deposited to the Housing Trust Fund and the Shelter Assistance Fund.

**Sales/Use Tax:** General sales/use tax is deposited in the State General Fund, while most vehicle use tax is deposited in the Road Use Tax Fund. Beginning FY 2009, the vehicle use tax is referred to as a fee in the Iowa Code. To allow continuity of data, the revenue from the fee is reflected in this document as tax revenue. Also beginning FY 2009, the School Infrastructure Local Option (SILO) sales tax was converted to a statewide 1.0% sales/use tax, and the revenue from that statewide tax is transferred out of the State General Fund monthly through a refund appropriation. To allow for continuity of data, the refund transfers are subtracted from state revenue as part of the net sales/use tax calculation. Beginning FY 2014, a portion of state sales/use tax revenue is deposited in a new Sales Tax Increment Fund and used for local flood mitigation projects.

**Local Option Taxes:** Local option taxes are presented at the bottom of the table and are not included in the numbers above. Prior to FY 2009, local option taxes included the SILO tax, Local Option Sales Tax (LOST) for local government finance, Local Option Income Surcharge for schools, and hotel/motel tax. Beginning in FY 2009, the SILO tax was converted to a 1.0% statewide tax, and the SILO tax was eliminated. To allow for continuity of data, the transfers from the State General Fund as a result of the 1.0% statewide tax are included in the local option tax amount. Flood mitigation sales tax increment transfers to local governments were added beginning July, 2014.

**Report Database:** The database for this report is the state accounting system. If transactions are incorrectly coded in the system as tax revenue or tax refunds, the numbers presented here will be impacted.